

**City of Davison
Davison, Michigan**

**Financial Report
with Supplemental Information
June 30, 2008**

City of Davison, Michigan

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Introductory Section

City of Davison, Michigan

List of Elected and Appointed Officials

Mayor

Fred Fortner

City Council

Tim Bishop
Ron Emery
Don Csutoras
Keith Flewelling
Jim Hershberger
Joy Murray

Appointed Officials

Dale Martin, City Manager
Cynthia VanMegroet, Treasurer
Andrea Schroeder, Clerk
William P. Brandon, Police Chief
Brian Klaassen, DPW Director
Colleen Hackney, Community
Development Director

Davison Downtown Development Authority List of Appointed Officials

Barbarajean Peckins-Muszynski
Sean O'Bryan
Eric Riechle
Melanie Helms
Fred Fortner
Joe Madore
George Kiess
Doug Gilmore
Vickie Wagner

Chair
Vice Chairman
Treasurer
Secretary
Mayor – City of Davison

Davison Local Development Finance Authority List of Appointed Officials

Leroy Cole
Duane Veit
Doug Ferrell
Fred Fortner
Mark Kennedy
Rose Bogardus

Chairman
Vice Chairman
Treasurer
Mayor – City of Davison

The Brownfield Re-development Authority is made up of the above board members holding the same positions.

Financial Section



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Independent Auditor's Report

To the Honorable Mayor and the City Council
City of Davison, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Davison as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Davison's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Davison as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedule of funding progress, and the budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Davison's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material aspects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

November 12, 2008

Management's Discussion and Analysis

City of Davison, Michigan

Management's Discussion and Analysis

This section of the City of Davison's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City's Total Net Assets are \$11.6 million.
- The City's over-all unrestricted net assets are \$3.6 million.
- General fund expenditures exceeded revenue by \$33 thousand before transfers out. After transfers, the net decrease in fund balance was \$43 thousand leaving the General Fund with a fund balance of \$1,443,413.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

Summary Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current assets	\$3,467,930	\$3,400,657	\$ 2,773,066	\$3,307,265	\$ 6,240,996	\$ 6,707,922
Noncurrent assets:						
Long term receivable	50,190	79,925	-	-	50,190	79,925
Restricted assets	-	-	623,243	480,587	623,243	480,587
Capital assets	4,261,393	3,213,737	8,239,169	8,124,114	12,500,562	11,337,851
Total assets	7,779,513	6,694,319	11,635,478	11,911,966	19,414,991	18,606,285
Current liabilities	443,879	353,650	97,372	390,184	541,251	743,834
Long-term liabilities	1,179,722	460,881	6,059,981	6,059,981	7,239,703	6,520,862
Total liabilities	1,623,601	814,531	6,157,353	6,450,165	7,780,954	7,264,696

City of Davison, Michigan

Management's Discussion and Analysis (Continued)

Summary Condensed Statement of Net Assets (Continued)

	Governmental Activities		Business-type Activities		Total	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net assets:						
Invested in capital assets- net of related debt	3,853,185	2,797,227	2,179,188	1,735,063	6,032,373	4,532,290
Restricted	888,612	891,612	1,109,700	1,520,472	1,998,312	2,412,083
Unrestricted	1,414,115	2,190,949	2,189,237	2,206,266	3,603,352	4,397,216
Total net assets	<u>\$6,155,912</u>	<u>\$5,879,788</u>	<u>\$5,478,125</u>	<u>\$5,461,801</u>	<u>\$11,634,037</u>	<u>\$11,341,589</u>

The governmental net assets increased 4.7 percent from a year ago – increasing from \$5,879,788 to \$6,155,912. In contrast, last year's net assets increased by 0.8 percent.

Unrestricted net assets of governmental activities – the part of net assets that can be used to finance day-to-day operations, decreased by \$776,834. This represents a decrease of approximately 35 percent. The current level of unrestricted net assets for our governmental activities stands at \$1,414,115, or about 33 percent of expenditures.

The net assets of business type activities increased 0.3 percent from a year ago – increasing from \$5,461,801 to \$5,478,125. In comparison, last year's net assets also increased by 4.3 percent.

Unrestricted net assets of business type activities– the part of net assets that can be used to finance day-to-day operations decreased by \$17,029. This represents a decrease of approximately 1.0 percent. The current level of unrestricted net assets stands at \$2,189,237, or approximately 104 percent of expenditures.

Summary Condensed Income Statement

	Governmental Activities		Business-type Activities		Total	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenue:						
Program revenue:						
Charges for services	\$ 722,055	\$ 679,839	\$1,850,914	\$1,825,025	\$ 2,572,969	\$2,504,864
Operating grants and contributions	392,046	341,102	50,488	41,940	442,534	383,042
Capital grants and contributions	208,976	-	59,162	96,845	268,138	96,845
General revenue:						
Property taxes	1,682,354	1,425,485	-	-	1,682,354	1,425,485
State-shared revenue	591,951	591,951	-	-	591,951	591,951
Franchise fees	75,325	88,923	-	-	75,325	88,923
Gain (loss) on disposal of assets	-	-	-	(7,636)	-	(7,636)
Interest	208,996	153,472	163,802	156,466	372,798	309,938
Total revenue	<u>3,881,703</u>	<u>3,280,772</u>	<u>2,124,366</u>	<u>2,112,640</u>	<u>6,006,069</u>	<u>5,393,412</u>

City of Davison, Michigan

Management's Discussion and Analysis (Continued)

Summary Condensed Income Statement (Continued)

	Governmental Activities		Business-type Activities		Total	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Program expenses:						
Legislative	25,227	28,045	-	-	25,227	28,045
General government	801,992	627,057	-	-	801,992	627,057
Public safety	1,512,539	1,384,868	-	-	1,512,539	1,384,868
Public works	964,661	866,054	-	-	964,661	866,054
Recreation and culture	289,700	322,893	-	-	289,700	322,893
Interest on long-term debt	11,460	2,319	-	-	11,460	2,319
Water and sewer	-	-	2,108,042	1,886,947	2,108,042	1,886,947
Total program expenses	<u>3,605,579</u>	<u>3,231,236</u>	<u>2,108,042</u>	<u>1,886,947</u>	<u>5,713,621</u>	<u>5,118,183</u>
Change in net assets	276,124	49,536	16,324	225,693	292,448	275,229
Net assets – beginning of year	<u>5,879,788</u>	<u>5,830,252</u>	<u>5,461,801</u>	<u>5,236,108</u>	<u>11,341,589</u>	<u>11,066,360</u>
Net assets – end of year	<u>\$6,155,912</u>	<u>\$5,879,788</u>	<u>\$5,478,125</u>	<u>\$5,461,801</u>	<u>\$11,634,037</u>	<u>\$11,341,589</u>

Governmental Activities

The City's total governmental revenues increased by \$600,931 or 18 percent.

Expenses increased by \$374,343 or 125 % during the year.

- General government expense increased by approximately \$175 thousand. In an effort to eliminate the net pension obligation an additional \$100 thousand was transferred to the nonunion pension fund.
- Public works expense increased by approximately \$99 thousand. Approximately \$54 thousand and \$27 thousand were spent on sidewalk and storm drain repairs.
- Recreation and culture expenses decreased by approximately \$33,000. The expense in this category related to the senior center decreased by approximately \$48 thousand.

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2008 include the General Fund, Major Streets, Local Streets and the Inflow and Infiltration Capital Project Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$1.4 million in 2008. Police services are partially supported by a 1.5 mill levy which is designated specifically for police protection.

City of Davison, Michigan

Management's Discussion and Analysis (Continued)

Capital Assets

At the end of 2008, the City had invested approximately \$6 million in capital assets, net of related debt. Capital assets as stated in this annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather together all of the required information, GASB has allowed cities to comply with this portion of Statement 34 prospectively. Major additions included the road work on First Street, storm drain improvements and the rehabilitation of the water tower. Additional information on the City's capital assets can be found in Note 3 C of this report.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. City departments overall stayed below budget, resulting in total expenditures \$150 thousand under budget. That resulted in an overall reduction in general fund balance of \$43 thousand which is lower than the amended budgeted reduction of \$281 thousand.

Long-term Debt

At year-end, the City had \$1.1 million in bonds and other debt outstanding for governmental activities and \$6 million in bonds and other debt outstanding for business type activities. The City has commenced an inflow and infiltration project, which is being funded with general obligation bonds. The repayment of the general obligation bonds will be repaid through a 1.35 mill levy approved by the voters. Additional information on the City's long-term debt can be found in Note 3 K of this report.

Contacting the City's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Davison, 200 E. Flint Street, Davison, Michigan 48423.

Basic Financial Statements

Government-wide Financial Statements

City of Davison

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,075,902	\$ 612,062	\$ 1,687,964
Cash held with agent	220,000	-	220,000
Investments	1,628,500	1,814,194	3,442,694
Receivables	64,611	297,235	361,846
Due from component units	50,000	-	50,000
Due from other governments	401,055	-	401,055
Internal balances	(9,489)	9,489	-
Inventory	4,518	19,801	24,319
Restricted assets:			
Cash and cash equivalents	-	623,243	623,243
Other assets	35,630	20,285	55,915
Pension asset	47,393	-	47,393
Capital assets (not depreciated)	1,754,252	1,000	1,755,252
Capital assets (net of accumulated depreciation)	2,507,141	8,238,169	10,745,310
Total assets	7,779,513	11,635,478	19,414,991
Liabilities			
Accounts payable	142,351	43,944	186,295
Accrued liabilities	130,574	47,801	178,375
Deposits	-	5,627	5,627
Due to primary government	-	-	-
Due to other governments	170,954	-	170,954
Noncurrent liabilities:			
Due within one year	28,572	340,000	368,572
Due in more than one year	1,151,150	5,719,981	6,871,131
Total liabilities	1,623,601	6,157,353	7,780,954
Net Assets			
Invested in capital assets, net of related debt	3,853,185	2,179,188	6,032,373
Restricted for:			
Street maintenance and construction	660,873	-	660,873
Debt service	197,810	-	197,810
Capital projects	23,574	1,109,700	1,133,274
Other purposes	6,355	-	6,355
Unrestricted	1,414,115	2,189,237	3,603,352
Total net assets	\$6,155,912	\$5,478,125	\$11,634,037

See Notes to Financial Statements.

Statement of Net Assets June 30, 2008

Component Units	
Downtown Development Authority	Local Development Finance Authority
\$ 119,583	\$ 73,381
-	53,878
-	-
-	-
-	-
-	-
-	-
-	-
-	-
1,558	-
121,141	127,259
1,984	660
-	-
-	-
50,000	-
-	-
-	-
-	-
51,984	660
1,558	-
-	-
-	-
-	-
-	-
67,599	126,599
\$ 69,157	\$126,599

City of Davison

Functions\Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
Legislative	\$ 25,227	\$ -	\$ -
General government	801,992	402,217	-
Public safety	1,512,539	42,176	-
Public works	964,661	222,460	392,046
Recreation and culture	289,700	55,202	-
Interest on long-term debt	11,460	-	-
Total governmental activities	3,605,579	722,055	392,046
Business-type Activities			
Sewer	825,426	878,960	4,850
Water	1,282,616	971,954	45,638
Total business-type activities	2,108,042	1,850,914	50,488
Total primary government	\$ 5,713,621	\$ 2,572,969	\$ 442,534
Component Units			
Davison Downtown Development Authority	\$ 156,777	\$ -	\$ 20,000
Davison Local Finance Development Authority	53,169	-	-
Total component units	\$ 209,946	\$ -	\$ 20,000
General revenues:			
Property taxes			
State shared revenues			
Franchise fees			
Unrestricted investment earnings			
Total general revenues			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - Ending of year			

See Notes to Financial Statements.

Statement of Activities Year Ended June 30, 2008

Net (Expense) Revenue and Changes in Net Assets					
Capital Grants and Contributions	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority	Local Development Finance Authority
\$ -	\$ (25,227)	\$ -	\$ (25,227)	\$ -	\$ -
-	(399,775)	-	(399,775)	-	-
-	(1,470,363)	-	(1,470,363)	-	-
207,630	(142,525)	-	(142,525)	-	-
1,346	(233,152)	-	(233,152)	-	-
-	(11,460)	-	(11,460)	-	-
208,976	(2,282,502)	-	(2,282,502)	-	-
59,162	-	117,546	117,546	-	-
-	-	(265,024)	(265,024)	-	-
59,162	-	(147,478)	(147,478)	-	-
\$ 268,138	(2,282,502)	(147,478)	(2,429,980)	-	-
\$ 25,130	-	-	-	(111,647)	-
-	-	-	-	-	(53,169)
\$ 25,130	-	-	-	(111,647)	(53,169)
	1,682,354	-	1,682,354	125,469	55,365
	591,951	-	591,951	-	-
	75,325	-	75,325	-	-
	208,996	163,802	372,798	2,982	4,492
	2,558,626	163,802	2,722,428	128,451	59,857
	276,124	16,324	292,448	16,804	6,688
	5,879,788	5,461,801	11,341,589	52,353	119,911
	\$ 6,155,912	\$ 5,478,125	\$ 11,634,037	\$ 69,157	\$ 126,599

See Notes to Financial Statements.

Fund Financial Statements

City of Davison

	General	Major Street	Local Street	Inflow and Infiltration
Assets				
Cash and cash equivalents	\$ 250,022	\$ 336,052	\$ 3,073	\$ 23,199
Cash held with agent	220,000	-	-	-
Investments	988,500	100,000	140,000	-
Receivables:				
Property taxes	8,420	-	-	-
Accounts	41,889	9,800	-	-
Special assessments	-	-	1,721	-
Interest	2,406	-	-	-
Prepaid	35,630	-	-	-
Due from other funds	-	2	27,928	-
Due from other governmental units	239,017	35,573	13,643	112,822
Due from component units	50,000	-	-	-
Inventory	4,518	-	-	-
Total assets	\$ 1,840,402	\$ 481,427	\$ 186,365	\$ 136,021

Liabilities and Fund Balances

Liabilities				
Accounts payable	\$ 34,887	\$ 311	\$ 3,441	\$ 96,734
Accrued liabilities	115,160	201	2,966	11,155
Due to other funds	27,930	-	-	27,700
Due to other governments	168,822	-	-	-
Deferred revenue	50,190	-	1,721	-
Total liabilities	396,989	512	8,128	135,589

Fund Balances

Reserved for:				
Inventory	4,518	-	-	-
Prepays	35,630	-	-	-
Disaster relief	1,000	-	-	-
Splash park	1,348	-	-	-
Unreserved, designated for subsequent years expenditures	277,672	-	-	-
Unreserved, undesignated reported in:				
General fund	1,123,245	-	-	-
Debt service funds	-	-	-	-
Special revenue funds	-	480,915	178,237	-
Capital projects fund	-	-	-	432
Total fund balances	1,443,413	480,915	178,237	432
Total liabilities and fund balances	\$ 1,840,402	\$ 481,427	\$ 186,365	\$ 136,021

See Notes to Financial Statements.

Balance Sheet
Governmental Funds
June 30, 2008

Nonmajor Governmental Funds	Totals
\$ 209,066	\$ 821,412
-	220,000
-	1,228,500
-	8,420
-	51,689
-	1,721
-	2,406
-	35,630
18,211	46,141
-	401,055
-	50,000
-	4,518
\$ 227,277	\$ 2,871,492

\$ -	\$ 135,373
-	129,482
-	55,630
2,132	170,954
-	51,911
2,132	543,350

-	4,518
-	35,630
-	1,000
-	1,348
-	277,672
-	1,123,245
197,996	197,996
4,007	663,159
23,142	23,574
225,145	2,328,142
\$ 227,277	\$ 2,871,492

Reconciliation of the Balance Sheet to the Statement of Net Assets Year Ended June 30, 2008

Fund balances reported in governmental funds	\$ 2,328,142
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,874,971
Prepaid pension assets are not available to pay for current period expenditures and, therefore, are not recognized in the fund	47,393
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	51,911
Long term liabilities, including other debt, are not due and payable in the current period, and therefore, are not reported in the funds.	(1,179,722)
Internal service fund is included as part of governmental activities	<u>1,033,217</u>
Net assets of governmental activities	<u><u>\$ 6,155,912</u></u>

City of Davison

	General	Major Street	Local Street	Inflow and Infiltration
Revenue				
Property taxes	\$ 1,522,673	\$ -	\$ -	\$ -
Special assessments	-	-	941	-
Licenses and permits	14,419	-	-	-
Intergovernmental revenue:				
Federal	-	-	-	-
State and local	651,943	255,092	83,258	-
Charges for services	109,677	-	-	-
Fines and forfeits	30,526	-	-	-
Interest income	152,945	17,039	6,760	1,377
Miscellaneous revenue	197,740	-	-	-
Total revenue	2,679,923	272,131	90,959	1,377
Expenditures				
Legislative	21,130	-	-	-
General governmental	527,083	-	-	-
Public safety	1,542,854	-	-	-
Public works	370,859	296,409	196,107	-
Recreation and cultural	250,846	-	-	-
Capital outlay	-	-	-	689,392
Debt service:				
Principal payments	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	2,712,772	296,409	196,107	689,392
Excess (deficiency) of revenue over expenditures	(32,849)	(24,278)	(105,148)	(688,015)
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	688,447
Transfers in	-	5,000	63,680	-
Transfers out	(10,000)	(58,680)	-	-
Total other financing sources (uses)	(10,000)	(53,680)	63,680	688,447
Net change in fund balances	(42,849)	(77,958)	(41,468)	432
Fund Balances - Beginning of year	1,486,262	558,873	219,705	-
Fund Balances - End of year	\$ 1,443,413	\$ 480,915	\$ 178,237	\$ 432

See Notes to Financial Statements.

**Statement of Revenue, Expenditures, and Changes
in Fund Balances - Governmental Funds
Year Ended June 30, 2008**

Nonmajor Governmental Funds	Totals
\$ 159,681	\$ 1,682,354
-	941
-	14,419
53,696	53,696
-	990,293
195,624	305,301
-	30,526
7,103	185,224
-	197,740
416,104	3,460,494
-	21,130
-	527,083
-	1,542,854
204,366	1,067,741
-	250,846
87,347	776,739
-	-
11,460	11,460
303,173	4,197,853
112,931	(737,359)
-	688,447
17,851	86,531
(17,851)	(86,531)
-	688,447
112,931	(48,912)
112,214	2,377,054
\$ 225,145	\$ 2,328,142

City of Davison

Governmental Funds **Reconciliation of the Statement of Revenue, Expenditures,** **and Changes in Fund Balances of Governmental Funds** **to the Statement of Activities** **Year Ended June 30, 2008**

Net Change in Fund Balances - Total Governmental Funds	\$ (48,912)
---	--------------------

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures; however, in the
statement of activities the cost of those assets is allocated over their estimated
useful lives and reported as depreciation:

Capital outlay	995,909
Depreciation expense	(66,307)
Net book value of assets disposed of	(300)

Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	(30,517)
--	----------

Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	8,303
--	-------

Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment	(30,394)
---	----------

Decrease in net pension obligation	47,393
------------------------------------	--------

Bond proceeds provide financial resources to governmental funds, but issuing debt increases long term liabilities in the statement of net assets	(688,447)
---	-----------

Internal Service Funds are also included as governmental activities	<u>89,396</u>
---	---------------

Change in Net Assets of Governmental Activities	<u>\$ 276,124</u>
--	--------------------------

Statement of Net Assets Proprietary Funds June 30, 2008

	Business-type Activities- Enterprise Funds			Internal Service Fund
	Sewer	Water	Totals	
Assets				
Current assets:				
Cash and cash equivalents	\$ 550,768	\$ 61,294	\$ 612,062	\$ 254,490
Investments	1,240,410	573,784	1,814,194	400,000
Accounts receivable	153,757	132,966	286,723	-
Accrued interest	1,312	9,200	10,512	375
Due from other funds	27,700	-	27,700	-
Inventory of supplies	-	19,801	19,801	-
Total current assets	1,973,947	797,045	2,770,992	654,865
Noncurrent assets:				
Restricted cash and cash equivalents	-	623,243	623,243	-
Bond issuance costs	-	20,285	20,285	-
Capital assets:				
Land	-	1,000	1,000	-
Buildings	-	139,395	139,395	-
Improvements other than buildings	2,500,266	9,402,347	11,902,613	-
Machinery and equipment	104,176	69,996	174,172	1,089,925
Accumulated depreciation	(1,823,999)	(2,154,012)	(3,978,011)	(703,503)
Total capital assets, net	780,443	7,458,726	8,239,169	386,422
Total non current assets	780,443	8,102,254	8,882,697	386,422
Total assets	2,754,390	8,899,299	11,653,689	1,041,287

See Notes to Financial Statements.

Statement of Net Assets Proprietary Funds (Continued) June 30, 2008

	Business-type Activities- Enterprise Funds			Internal Service Fund
	Sewer	Water	Totals	
Liabilities				
Current liabilities:				
Accounts payable	41,399	2,545	43,944	6,978
Accrued liabilities	1,852	4,858	6,710	1,092
Payable from restricted assets:				
Water meter deposits	-	5,627	5,627	-
Accrued interest payable	-	41,091	41,091	-
Bonds payable - current	-	340,000	340,000	-
Due to other funds	18,211	-	18,211	-
Total current liabilities	61,462	394,121	455,583	8,070
Noncurrent liabilities:				
Bonds payable	-	5,719,981	5,719,981	-
Total liabilities	61,462	6,114,102	6,175,564	8,070
Net Assets				
Invested in capital assets, net of related debt	780,443	1,398,745	2,179,188	386,422
Restricted for capital improvement	571,909	537,791	1,109,700	-
Unrestricted	1,340,576	848,661	2,189,237	646,795
Total net assets	\$ 2,692,928	\$ 2,785,197	\$ 5,478,125	\$ 1,033,217

City of Davison

Statement of Revenue, Expenses, and Changes in Net Assets Proprietary Funds Year Ended June 30, 2008

	Business-type Activities- Enterprise Funds			Internal Service Fund
	Sewer	Water	Totals	
Operating Revenue				
Charges for services	\$ 877,735	\$ 911,626	\$ 1,789,361	\$ 364,203
Hydrant rentals	-	22,600	22,600	-
Miscellaneous	-	-	-	13,772
Total operating revenue	877,735	934,226	1,811,961	377,975
Operating Expenses				
Sewage maintenance	25,027	-	25,027	-
Water plant operations	-	24,865	24,865	-
Wages and benefits	226,779	446,861	673,640	84,335
Treatment fees	352,825	-	352,825	-
Supplies	10,950	47,241	58,191	82,627
Heat, light, power	690	62,924	63,614	-
Depreciation	47,840	248,555	296,395	98,194
Amortization	-	2,411	2,411	-
Equipment maintenance and repair	28,798	102,544	131,342	30,410
Building rent and maintenance	20,057	20,057	40,114	5,107
Insurance expense	9,623	14,331	23,954	11,663
Professional fees	8,157	8,357	16,514	-
Sampling	-	29,190	29,190	-
Miscellaneous	94,680	64,870	159,550	15
Total operating expenses	825,426	1,072,206	1,897,632	312,351
Operating income (loss)	52,309	(137,980)	(85,671)	65,624
Nonoperating Revenue (Expenses)				
Intergovernmental grant	59,162	40,788	99,950	-
Tower rentals	-	30,700	30,700	-
Interest revenue	98,093	65,709	163,802	23,772
Miscellaneous	1,225	7,028	8,253	-
Interest expense and fiscal charges	-	(210,410)	(210,410)	-
Total nonoperating revenue (expenses)	158,480	(66,185)	92,295	23,772
Income (Loss) - Before contributions and transfers	210,789	(204,165)	6,624	89,396
Capital Contributions - Tap fees	4,850	4,850	9,700	-
Changes in Net Assets	215,639	(199,315)	16,324	89,396
Net Assets - Beginning of year	2,477,289	2,984,512	5,461,801	943,821
Net Assets - End of year	\$ 2,692,928	\$ 2,785,197	\$ 5,478,125	\$ 1,033,217

See Notes to Financial Statements.

City of Davison

Statement of Cash Flows Proprietary Funds Year Ended June 30, 2008

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Cash Flows from Operating Activities				
Receipts from customers	\$ 877,590	\$ 948,262	\$ 1,825,852	\$ 377,975
Payments to suppliers	(562,595)	(372,203)	(934,798)	(124,052)
Payments to employees	(225,414)	(444,222)	(669,636)	(84,781)
Net cash provided by operating activities	89,581	131,837	221,418	169,142
Cash flows from Noncapital Financing Activities				
Receipt (repayment) of interfund receivables and payables	(41,528)	46,428	4,900	-
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	-	(411,450)	(411,450)	(216,548)
Tap in revenue	4,850	4,850	9,700	-
Grant revenue	156,007	40,788	196,795	-
Repayment of long-term debt	(2,035)	(327,035)	(329,070)	-
Interest paid on capital debt	-	(169,318)	(169,318)	-
Net cash provided by (used in) capital and related related financing activities	158,822	(862,165)	(703,343)	(216,548)
Cash Flows from Investing Activities				
Sale of investments	16,197	596,120	612,317	2,049
Rentals and other miscellaneous charges	1,225	37,728	38,953	-
Interest earned	104,260	56,509	160,769	27,457
Net cash provided by investing activities	121,682	690,357	812,039	29,506
Net Increase (decrease) in Cash and Cash Equivalents	328,557	6,457	335,014	(17,900)
Cash and Cash Equivalents - Beginning of year	222,211	678,080	900,291	272,390
Cash and Cash Equivalents - End of year	\$ 550,768	\$ 684,537	\$ 1,235,305	\$ 254,490
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 52,309	\$ (137,980)	\$ (85,671)	\$ 65,624
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	47,840	250,966	298,806	98,194
Changes in operating assets and liabilities:				
Accounts receivable	(145)	13,261	13,116	-
Accounts payable	(11,788)	2,176	(9,612)	5,770
Accrued liabilities	1,365	2,639	4,004	(446)
Water meter deposits	-	775	775	-
Net cash provided by operating activities	\$ 89,581	\$ 131,837	\$ 221,418	\$ 169,142

See Notes to Financial Statements.

City of Davison

Statement of Fiduciary Net Assets June 30, 2008

	Pension Trust Fund	Agency Fund
Assets		
Cash and cash equivalents:		
Bank deposits	\$ -	\$ 68,782
Investments:		
Annuity contracts	662,827	-
Receivables - bonds	-	8,627
Total assets	<u>\$ 662,827</u>	<u>\$ 77,409</u>
Liabilities		
Due to other governments	\$ -	\$ 77,409
Net Assets Held in Trust for Pension Benefits	<u>\$ 662,827</u>	<u>\$ -</u>

City of Davison

Statement of Changes in Fiduciary Net Assets Pension Trust Fund Year Ended June 30, 2008

	Pension Benefit Trust Fund
Additions	
Contributions - employer	\$ 264,718
Investment income:	
Loss	(8,656)
Total additions	256,062
Deductions	
Premiums	62,081
Administrative expenses	7,019
Total deductions	69,100
Net Increase in Net Assets Held	186,962
Net Assets Held in Trust for Pension Benefits	
Beginning of year	475,865
End of year	<u><u>\$ 662,827</u></u>

Notes to Basic Financial Statements

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Davison (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of significant accounting policies used by the City of Davison:

A. Reporting Entity

The City of Davison was incorporated in 1939, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below).

Blended Component Units

City of Davison Building Authority has been reported as if it were a part of this City's operations because:

- City has pledged its full faith and credit as a guarantee for the Authority's outstanding debt
- City is obligated to fund deficits of the Authority

Davison Area Library

- The City has entered into an agreement between the Township of Davison, the City of Davison, and Richfield Township to share the expenses of providing a library for the use of the residents of the three governmental units. The City of Davison maintains the accounting records for the library as a general fund activity center with the Townships of Davison and Richfield reimbursing the City for their share of the library expenses. The municipalities share the expenses of the library according to the following percentages: 35% by the City, 50% by Davison Township, and 15% by Richfield Township.

Note I - Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Principles used in determining the scope of entity for financial reporting purposes: - (continued)

Discretely Presented Component Units

City of Davison Downtown Development Authority (DDA)

- City appoints governing board
- City approves budget of DDA
- City must approve any tax levy of the DDA
- Surplus funds existing at termination of DDA vest to the City

City of Davison Local Development Finance Authority (LDFA)

- City appoints the governing board members
- City Council approves the budget of LDFA
- City must approve any tax increment financing plan
- Surplus funds existing at termination of LDFA vest to the City

The Authority's do not publish separate financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenue*.

Note I - Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, special assessments and grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major and Local Street Funds account for the City's share of proceeds from gas and weight taxes levied by the State and distributed to local governmental units. State law requires that these taxes be used for street maintenance and construction. The City of Davison has decided to show these funds as major governmental funds.

Note I - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Major governmental funds (continued):

The Inflow and Infiltration Capital Project Fund accounts for the loan proceeds and related expenditures for storm water maintenance.

The City reports the following major proprietary funds:

The Water Supply and Sewer Disposal System is a division of the City's Department of Public Work. Separate funds are maintained for the operations of the water distribution system and sewage pumping and collection system.

Additionally, the City reports the following internal service and fiduciary activities:

The Internal service fund accounts for fleet management services provided to other departments or agencies of the government, or to other governments on a cost reimbursement basis.

The Pension Trust Fund accounts for the activities of the non-union pension plan which accumulates resources for pension benefit payments to qualified employees.

The Agency Fund accounts for assets held by the City as an agent for individuals, private organizations and other governments. The Agency fund is reported as fiduciary funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

Proprietary funds distinguish *operating* revenue and expenses from *non-operating* items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Note I - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits

The City and its component units have classified all checking, savings accounts and short term investments with a maturity of three months or less when acquired as cash and cash equivalents. Cash held with agent represents cash held by the State of Michigan for road projects.

2. Investments:

Investments for the City, as well as for its component units, are stated at fair value. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

3. Receivables and payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade, notes, contracts, and property tax receivables are shown net of an allowance for uncollectibles. No allowance has been recorded as management deems all receivables to be collectible.

4. Inventories and prepaid items

All inventories are valued at the lower of cost or market using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted assets

The revenue bonds of the Enterprise Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

6. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note I - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

6. Capital assets (continued)

In accordance with accounting principles generally accepted in the United States of America, recorded infrastructure assets include only those acquired during the fiscal years ended June 30, 2004 to 2008, prior to the implementation of GASB No. 34, records on these assets were not maintained. The City is not required to retroactively determine costs and accumulated depreciation prior to July 1, 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	39
Improvements other than buildings	10-40
Machinery and equipment	5-7
Infrastructure	39-40

7. Deferred revenue

Deferred revenue represent receipts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City reported as deferred revenues the amount of \$1,721 in the Local Streets Special Revenue Fund, which relates directly to special assessments receivable. See footnote 3E for details of a long-term rent receivable which has been shown as deferred revenue (\$50,190) in the General Fund.

8. Compensated absences

Non union employees may carry over 5 days of vacation time. Non union employees will be paid for unused vacation time that has been earned through the last day of work upon termination of employment. The DPW is allowed to carry over 10 days of leave time. DPW employees are paid out upon retirement or death. Police department employees are allowed to carry over their maximum amount of leave time available in one year (based on years of service) plus 100 hours. Police department employees are paid out upon retirement, death, or separation. Compensated absences is accrued when incurred in the government-wide fund financial statements. A liability for these amounts is reported in the governmental funds only for employee terminations as of year end.

9. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

9. Long-term obligations (continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

11. Property tax

Property taxes attach as an enforceable lien on all taxable real and personal property as of December 1. Taxes are levied on the following July 1, are payable on August 31, and collected without penalty through September 30. The City bills and collects its own property taxes and also taxes for the county and several school districts within its jurisdiction. Collections and remittances of the county and school taxes are accounted for in the Current Tax Agency Fund. City property tax revenues are recognized as revenue in the fiscal year levied to the extent that they are measurable and available. Property tax administration fee revenue is recognized as revenue when received.

The 2007 taxable valuation of the City totaled \$123.1 million (a portion of which is abated and a portion of which is captured by the DDA and LDFA), on which taxes levied consisted of 11.2837 mills for operating, 1.5 mills for police protection, and 1.35 for repayment of debt. This resulted in \$1.334 million for operating, \$177 thousand for police protection and \$160 thousand for debt retirement.

In 1981, the City's Downtown Development Authority (DDA) entered into tax incremental financing agreements with the City, Genesee County, Genesee Intermediate Schools, and Davison Community Schools for a fifteen-year period. In 1997, this plan was renewed with all units of government except Davison Community Schools for an additional fifteen years. (Proposal A passed by Michigan taxpayers eliminated the school millage from the calculation of the mills to be used to compute the taxes on the increase in assessed value within the tax increment financing area that can be captured.) Also in 2000 the DDA expanded its boundaries and adopted a new District 2 plan.

The captured taxable values in excess of the initial taxable values for June 30, 2008 by district are as follows:

District 1 -	\$ 1,980,035
District 2 -	813,331

Note I - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

11. Property tax (continued)

The DDA is using the tax increment revenues to improve the plan areas and has created 30-40 jobs through the implementation of this plan.

In 1997, a Local Development Financing Authority (LDFA) was created to continue for a thirty-year period. The main difference between the LDFA Act and the DDA Act is that the LDFA district services manufacturing areas and does not have to be contiguous property. In 1997, the Davison LDFA entered into tax incremental financing agreements with the City of Davison and Genesee County. The LDFA's tax incremental revenue is calculated by multiplying the millage (of all entities involved) by the Captured Taxable Value (the difference between the current taxable value and the initial taxable value). The initial taxable values were established in 1997 (\$2,753,325).

The captured taxable value in excess of the initial taxable values for June 30, 2008 is \$2,267,834.

The LDFA is using the tax increment revenues to improve the plan area and has created 21 jobs as a result of the implementation of the tax increment financing plan.

On April 20, 1998, the City Council of the City of Davison, Michigan, adopted a resolution to create the City of Davison Brownfield Redevelopment Authority (BRA) and to designate the Brownfield Zone within which the BRA will exercise its powers. The Brownfield Zone to which this Brownfield Plan (the "Plan") applies consists of the properties within the boundaries of the City of Davison, Michigan. The LDFA has agreed to supervise and control the Brownfield Redevelopment Authority (BRA).

The purpose of the Brownfield Plan, to be implemented by the BRA, is to satisfy the requirements for a Brownfield Plan as specified in Section 13 of Act No. 381 of the Public Acts of 1996. MCLA 125.2651 et. seq., which is known as the "Brownfield Redevelopment Financing Act."

The BRA has initially identified the following parcels of real estate which require, or which may require, undertaking certain eligible response activities to facilitate redevelopment under this Plan:

1. The Former Independent Oil Company Site, a "facility" located within the boundaries of the Downtown Development Authority, containing one or more underground storage tank(s) and contaminated soils and groundwater, requiring Phase II and baseline environmental assessments, due care, and additional response activities prior to being redeveloped as part of the Downtown Revitalization Plan.
2. The Former Davison Oil & Gas Site, a "facility" located within the boundaries of the Downtown Development Authority, consists of two contiguous parcels and a portion of a City street that will be eventually closed as part of the redevelopment. The property contains one or more underground storage tank(s) and contaminated soils and groundwater, and requires demolition of dilapidated building(s), Phase II, and baseline environmental assessments, due care, and additional response activities, and infrastructure improvements prior to being redeveloped as part of the Downtown Revitalization Plan.

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

11. Property tax (continued)

The duration of the Brownfield Plan shall be thirty (30) years. As of June 30, 2008, there has been no activity for BRA.

Each Authority's tax increment revenue is calculated by multiplying the millage (of all entities involved) times the captured taxable value (the difference between current taxable value and the initial assessed value). The initial assessed values were established in 1981 for the DDA District 1, 1996 for the expanded DDA District 2, and 1997 for the LDFA.

12. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

A. Budgetary Information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the second Monday in May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General and Special Revenue Funds. Informational summaries of projected revenues and expenditures are provided for all other City funds, as well as estimated total costs and proposed methods of financing all capital construction projects.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance and in accordance with Public Act 621 of 1978 of the State of Michigan. All funds' budgets are enacted on a total fund basis.
4. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) with the exception of the Special Revenue - Community Development Fund which is adopted on a project length basis.
5. Budget appropriations lapse at year end.
6. The original budget was amended during the year to be in compliance with the City Charter and applicable state law.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

A. Budgetary Information (Continued)

7. A reconciliation of the budgetary comparison schedule to the government-wide financial statement of for Davison Downtown Development Authority is as follows:

Davison Downtown Development Authority	<u>Total Expenditures</u>
Balance per Budgetary Comparison Schedule	\$155,218
Depreciation Expense	<u>1,559</u>
Balance per Government-Wide Statements	<u><u>\$156,777</u></u>

B. Excess of Expenditures Over Appropriations

The following funds incurred expenditures in excess of appropriations at the fund level during the year:

	<u>Final Budget</u>	<u>Actual</u>	Actual Over Amended Budget
Local Street Fund	\$168,224	\$196,107	\$27,883

Note 3 - Detailed Notes on All Funds

A. Deposits and Investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Detailed Notes on All Funds (Continued)

A. Deposits and Investments (Continued)

The City has designated eight banks for the deposits of its funds.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$1,605,365 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the city evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Sweep Accounts	\$1,432,501	Counterparty

Interest rate risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, investments consisted of an overnight repurchase agreement of \$1,432,501.

The nonunion pension plan investments consist of annuity contracts which are not rated and for which the internal interest rate is unknown.

Credit risk:

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Sweep accounts	\$1,432,501	Aaa	Standard & Poor

Note 3 - Detailed Notes on All Funds (Continued)

A. Deposits and Investments (Continued)

Davison Downtown Development Authority has designated two banks for the deposit of its funds (JP Morgan/Chase and Oxford Bank). The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized all the above noted investments per the state statute. The DDA's deposits and investment policies are in accordance with statutory authority.

The DDA's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. The DDA is not subject to deposit custodial credit risk at year end as all of the DDA's deposits were fully insured by FDIC coverage.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Sweep account	\$111,978	Counterparty

Credit risk:

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Repurchase Agreement	\$111,978	Aaa	Standard & Poor

The Davison Local Development Finance Authority has designated three banks for the deposit of its funds; JP Morgan Chase, Davison State Bank, and Citizens Bank. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in all items noted in the State statute. The LDFA's deposits and investment policies are in accordance with statutory authority.

Note 3 - Detailed Notes on All Funds (Continued)

A. Deposits and Investments (Continued)

The LDFA's cash is subject to one type of risk, which is examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the LDFA bank deposits were fully insured.

B. Receivables

Receivables as of year end for the City's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Governmental activities and fiduciary funds:

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Inflow and Infiltration</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:						
Interest	\$ 2,406	\$ -	\$ -	\$ -	\$ 375	\$ 2,781
Taxes	8,420	-	-	-	-	8,420
Accounts	41,889	9,800	-	-	-	51,689
Intergovernmental	239,017	35,573	13,643	112,822	-	401,055
Special assessment	-	-	1,721	-	-	1,721
Gross receivables	291,732	45,373	15,364	112,822	375	465,666
Less: allowance for uncollectibles	-	-	-	-	-	-
Net total receivables	<u>\$291,732</u>	<u>\$ 45,373</u>	<u>\$ 15,364</u>	<u>\$112,822</u>	<u>\$ 375</u>	<u>\$465,666</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special Assessments not yet due (local streets)	\$ 1,721	\$ -
Long-term notes receivables (general fund)	50,190	-
Total deferred/unearned revenue for governmental funds	<u>\$ 51,911</u>	<u>\$ -</u>

City of Davison, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Detailed Notes on All Funds (Continued)

B. Receivables (Continued)

Business type activities:

	Sewer Fund	Water Fund	Total
Receivables:			
Accounts	\$153,757	\$132,966	\$286,723
Accrued interest	1,312	9,200	10,512
Intergovernmental	-	-	-
Gross receivables	155,069	142,166	297,235
Less: allowance for uncollectibles	-	-	-
Net total receivables	<u>\$155,069</u>	<u>\$142,166</u>	<u>\$297,235</u>

C. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

Primary Government

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 1,754,252	\$ -	\$ -	\$ 1,754,252
Total capital assets, not being depreciated	<u>1,754,252</u>	<u>-</u>	<u>-</u>	<u>1,754,252</u>
Capital assets, being depreciated:				
Buildings	1,239,229	-	-	1,239,229
Improvements other than buildings	610,052	-	-	610,052
Machinery and equipment	1,596,581	223,920	(204,132)	1,616,369
Infrastructure	634,609	988,537	-	1,623,146
Total capital assets being depreciated	<u>4,080,471</u>	<u>1,212,457</u>	<u>(204,132)</u>	<u>5,088,796</u>
Less accumulated depreciation for:				
Buildings	(756,173)	(15,096)	-	(771,269)
Improvements other than buildings	(566,132)	(3,304)	-	(569,436)
Machinery and equipment	(1,270,104)	(114,353)	203,832	(1,180,625)
Infrastructure	(28,577)	(31,748)	-	(60,325)
Total accumulated depreciation	<u>(2,620,986)</u>	<u>(164,501)</u>	<u>203,832</u>	<u>(2,581,655)</u>
Total capital assets, being depreciated, net	<u>1,459,485</u>	<u>1,047,956</u>	<u>(300)</u>	<u>2,507,141</u>
Governmental activities capital assets, net	<u>\$ 3,213,737</u>	<u>\$ 1,047,956</u>	<u>\$ (300)</u>	<u>\$ 4,261,393</u>

Note 3 - Detailed Notes on All Funds (Continued)

C. Capital Assets (Continued)

Primary Government (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Capital assets, being depreciated:				
Building	139,395	-	-	139,395
Systems	11,491,163	411,450	-	11,902,613
Machinery and equipment	174,172	-	-	174,172
Total capital assets, being depreciated	11,804,730	411,450	-	12,216,180
Less accumulated depreciation for:				
Buildings	(39,953)	(3,429)	-	(43,382)
Systems	(3,539,795)	(275,098)	-	(3,814,893)
Machinery and equipment	(101,868)	(17,868)	-	(119,736)
Total accumulated depreciation	(3,681,616)	(296,395)	-	(3,978,011)
Total capital assets, being depreciated, net	8,123,114	115,055	-	8,238,169
Business-type activities capital assets, net	<u>\$ 8,124,114</u>	<u>\$ 115,055</u>	<u>\$ -</u>	<u>\$ 8,239,169</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Current:

General government	\$115,992
Public safety	8,300
Public works	22,342
Recreation and culture	<u>17,867</u>

Total depreciation expense – governmental activities \$164,501

Business-type activities:

Sewer	\$248,555
Water	<u>47,840</u>

Total depreciation expense – Business-type activities \$296,395

City of Davison, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Detailed Notes on All Funds (Continued)

C. Capital Assets (Continued)

Discretely presented component units:

Activity for the City of Davison Downtown Development Authority (DDA) for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Machinery and equipment	\$ 31,110	\$ -	\$ -	\$ 31,110
Totals, capital assets being depreciated	31,110	-	-	31,110
Less accumulated depreciation for:				
Machinery and equipment	(27,993)	(1,559)	-	(29,552)
Total accumulated depreciation	(27,993)	(1,559)	-	(29,552)
Total capital assets, being depreciated, net	3,117	(1,559)	-	1,558
Capital assets, net	\$ 3,117	\$ (1,559)	\$ -	\$ 1,558

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2008 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Local Streets	General	\$ 27,928
Major Streets	General	2
Sewer	Inflow and Infiltration –capital projects	27,700
19897 Storm Drain	Sewer	18,211
		<u>\$ 73,841</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made.

Due to/from primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
City of Davison General Fund	Davison Downtown Development Authority	<u>\$ 50,000</u>

City of Davison, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Detailed Notes on All Funds (Continued)

D. Interfund Receivables, Payables, and Transfers (Continued)

	Transfer In				Total
	Major Streets	Local Streets	Nonmajor Governmental	Internal Service Funds	
Transfer out:					
General fund	\$ 5,000	\$ 5,000	\$ -	\$ -	\$ 10,000
Major streets	-	58,680	-	-	58,680
Nonmajor governmental funds	-	-	-	-	-
Total transfers out	\$ 5,000	\$ 63,680	\$ -	\$ -	\$ 68,680

Transfers between funds were primarily for operating purposes.

E. Long-term Rent Receivable

The City entered into a long-term lease with the State of Michigan for space located at 300 North Main Street to be used as a Secretary of State office. This lease calls for an initial term (noncancelable) of ten years with two renewal options of five years each. The initial ten year term has been recorded in the General Fund as a receivable and deferred revenue. The rent will be received as detailed below:

Fiscal Year Ending	Rent
2009	\$ 29,735
2010	20,455
	<u>\$ 50,190</u>

F. Commitments

The City of Davison purchased three properties within the LDFA's boundaries through an installment purchase agreement. The installment agreements require yearly interest payments with the principal due October 19, 2019, October 1, 2020, and February 1, 2021, respectively. The LDFA has agreed to contribute the annual interest payments to the City of Davison for up to fifteen years.

Note 3 - Detailed Notes on All Funds (Continued)

F. Commitments (Continued)

The following is the estimated interest for all properties:

<u>Fiscal Year Ending</u>	<u>Interest</u>
2009	\$ 19,039
2010	19,039
2011	19,039
2012	19,039
2013	19,039
2014-2017	95,195
2018-2021	43,306
	<u>\$233,696</u>

G. DDA Proposed Improvement Projects

The location, extent, and character of the proposed improvements noted in the DDA's plan are identified below. It is estimated that the projects will be completed by the year 2012.

Future minimum payments required under the plan to complete each project are as follows:

<u>Project Priority</u>	<u>Project Description</u>	<u>Location</u>	<u>Estimated Cost</u>
High	Streetscape	Second to Main Street	\$50,000 - \$60,000
High	Repave and rebuild sidewalks	District wide	30,000
Medium	Decorative lighting	District wide	130,000
Medium	Streetscape	M-15 length of the District	250,000
Medium	Farmer's Market	Main and Second Street	50,000
Low	ADA Compliance program	District wide	(cost based on study depth)
Low	Commercial property	Corner of Mill Street and M-15	400,000
Low	Mill Street improvements		75,000
Low	Parking deck construction	End of East Second Street	1,000,000
On-going	DDA administration and Promotional activities	District wide	variable

Note 3 - Detailed Notes on All Funds (Continued)

H. LDFA Proposed Improvement Projects

The location, extent, and character of the proposed improvements noted in the LDFA's plan are identified below. It is estimated that the projects will be completed by the year 2017.

Future minimum payments required under the plan to complete each project are as follows:

<u>Short-term projects (current - 2008)</u>	<u>Estimated Cost</u>
Signage – to better promote industrial properties, corporate identification and directional signage will be situated at appropriate locations on M-15 and on West Rising Street	\$ 25,000
Overhead street lighting	35,000
Sidewalks – to promote pedestrian safety, sidewalks may be developed throughout the Development District with high priority given to both Dayton Street and West Rising Street	*Variable
<u>Long-term projects (2008 - 2017)</u>	
Landscaping	*Variable
Speculative building program	250,000
Parking – improved parking to better serve industrial facilities is considered a long-term priority. Expansion of existing facilities will require special attention to increased parking needs. Possible new ingress and egress on permanent easement to allow public financial participation is a potential solution to the problem.	*Variable
<u>On-going projects (current – 2017)</u>	
Land acquisition	400,000
Infrastructure improvements – extending the water and sewer lines and East Rising Road as a way to attract new industrial investment to the possible expansion area.	240,000
Administration – these funds will be allocated to operating expenses such as: a full/part-time administrator, supplies, materials, postage, newspaper publications, etc.	50,000
Professional services – these services will include, but not be limited to; legal, financial/auditing, marketing, advertising, grant assistance, planning, and design related services.	90,000
Contingencies – set at approximately 10 percent of total anticipated expenditures to cover project cost overruns and other unforeseen expenses.	121,000
Total	<u>\$1,211,000</u>

Note 3 - Detailed Notes on All Funds (Continued)

I. Description of Brownfield Costs to be Paid for with Tax Increment Revenues and Summary of Eligible Activities

Brownfield costs to be paid by the LDFA with tax increment revenues include, but are not limited to, the following:

- Phase I and II environment assessments
- Baseline environmental assessments
- Soil and groundwater investigations
- Underground storage tank removals
- Soil and/or groundwater remediation
- Building demolitions
- Due care activities (required by MDEQ)
- Associated infrastructure repairs associated with response activities
- Administration costs (work plans, MDEQ approvals, Authority administrative/operating expenses)

Costs for preliminary eligible activities that may be paid with tax increment revenues, associated with the projects approved by the LDFA and Davison City Council, are described below. Delineation of additional eligible activities to be conducted as part of a development agreement between the LDFA and the developer or owner of the eligible properties is deferred until certain baseline assessments and investigations are completed under this Plan.

Former Independent Oil Company Site

<u>Activity</u>	<u>Cost</u>
Groundwater investigation	\$ 19,000
Remedial action plan	3,000
Baseline environmental assessment	4,500
Soil contamination abatement ⁽¹⁾	25,000
UST removal	9,000
Groundwater contamination abatement ⁽²⁾	-
Infrastructure repairs	7,000
Administration	6,800
Interest ⁽³⁾	56,551
Total	<u>\$130,851</u>

(1) Cost based on engineering controls; may be revised based on MDEQ review of RAP.

(2) Extent of groundwater contamination unknown at this time; abatement costs will be determined following investigation.

(3) Interest calculated based on 6% for 21 years.

Note 3 - Detailed Notes on All Funds (Continued)

I. Description of Brownfield Costs to be Paid for with Tax Increment Revenues and Summary of Eligible Activities (Continued)

Former Davison Oil & Gas Site

<u>Activity</u>	<u>Cost</u>
Soil and groundwater investigation	\$ 55,000
Remedial action plan	5,500
Baseline environmental assessment	5,000
Soil contamination abatement ⁽¹⁾	60,000
Groundwater contamination abatement ⁽²⁾	-
Building demolition	25,000
UST removal	15,000
Infrastructure repairs	40,000
Administration	20,550
Interest ⁽³⁾	<u>353,768</u>
Total	<u>\$579,818</u>

(1) Extent of soil contamination uncertain at this time; cost estimate based on best case scenario.

(2) Presence and extent of groundwater contamination unknown at this time; abatement costs cannot be estimated at this time.

(3) Interest calculated based on annual payments through available tax increments captured.

J. Capital Leases

The City has entered into a lease agreement as lessee for financing the purchase of a copier. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the present value are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
2009	\$ 2,328
2010	2,328
2011	<u>388</u>
Total minimum lease payments	5,044
Less amount representing interest	<u>(604)</u>
Present Value	<u>\$ 4,440</u>

City of Davison, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Detailed Notes on All Funds (Continued)

K. Long-term Debt

The government issues bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Contractual agreements and installment purchase agreements are also general obligations of the government. The Drinking Water Revolving Loan Fund debt is secured by future State Revenue Sharing payments to be received by the City's General Fund. Revenue bonds involve the pledge of specific income derived from the acquired or constructed assets to pay debt service.

A summary of bond transactions for the year ended June 30, 2008, and the composition of the June 30, 2008, long-term debt balance follows:

	Final Payment <u>Due</u>	Interest Rate or <u>Range</u>	Balance at June 30, <u>2007</u>	Issuances (Retirements) <u>During Year</u>	Balance at June 30, <u>2008</u>	Due Within <u>One Year</u>
Governmental activities:						
2007 General Obligation						
Capital Improvement Bonds	10/1/2028	1.625%	\$ -	\$688,447	\$ 688,447	\$ 26,660
Land installment purchases:						
Rising Street	10/1/2019	4.88	167,950	-	167,950	-
South State Street	10/1/2020	4.37	125,814	-	125,814	-
Genesee Street	2/1/2021	4.65	110,000	-	110,000	-
Capital lease	8/10/2010	11.619	6,143	(1,700)	4,443	1,912
Accumulated vacation and sick pay			52,674	30,394	83,0687	-
BS&A Software	6/30/2008	-	6,603	(6,603)	-	-
Total governmental activities			<u>\$ 469,184</u>	<u>\$710,538</u>	<u>\$1,179,722</u>	<u>\$ 28,572</u>
Business - type activities:						
2003A Water Supply and Sewage Disposal System						
Revenue Refunding Bonds	9/2016	3.95%	\$ 510,000	\$ (45,000)	\$ 465,000	\$ 50,000
2003 Water Capital Improvement Bonds	10/1/2018	1.2-4.45	510,000	(35,000)	475,000	35,000
Drinking Water Revolving Loan Fund Debt	10/1/2024	2.5	5,364,981	(245,000)	5,119,981	255,000
BS&A Software	6/30/2008	-	4,070	(4,070)	-	-
Total Business - type activities			<u>\$6,389,051</u>	<u>\$(329,070)</u>	<u>\$6,059,981</u>	<u>\$340,000</u>

The City has pledged substantially all revenue of the water and sewer fund to repay the above water and sewer revenue refunding bonds. Proceeds from the bonds provided financing for the construction of the water and sewage disposal system. The bonds are payable solely from the net revenues of the water and sewer system. Remaining principal and interest to be paid on the bonds is \$542,321. During the current year, net revenues of the system were \$16,234 compared to the annual debt requirements of \$64,256.

City of Davison, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Detailed Notes on All Funds (Continued)

K. Long-term Debt (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

Year End June 30,	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 28,572	\$ 33,585	\$ 340,000	\$ 160,272
2010	32,138	30,019	345,000	150,829
2011	30,863	29,353	365,000	140,881
2012	30,978	28,850	375,000	130,345
2013	31,484	28,345	380,000	119,508
2014-2018	165,294	133,849	1,950,000	427,329
2019-2023	582,991	68,026	1,770,000	177,613
2024-2025	194,331	9,615	534,981	12,313
Total	\$1,096,651	\$361,642	\$6,059,981	\$1,319,090

Interest is payable on all obligations semi-annually or annually. Principal is paid on an annual basis.

On June 30, 2007, the State of Michigan issued 2007 General Obligation Bonds in the amount of \$2,690,000. The City is requesting draws on these bonds to fund the inflow and infiltration project as they are incurred. As of June 30, 2008, \$688,447 has been drawn.

Note 4 - Other Information

A. Retirement Plans and Other Post-employment Benefits

The City has a separate single-employer non-contributory defined benefit pension plan for its non-union employees. The City also participates in the Municipal Employees Retirement System of Michigan (M.E.R.S.) which is an agent multi-employer public retirement system (PERS) for the Police, Police Command, Police Dispatch/Secretaries, and DPW Pension Plans. The four M.E.R.S. plans are all contributory defined benefit plans. The City has no fiduciary responsibility for the M.E.R.S. plans. M.E.R.S. issues a publicly available financial report that includes financial statements and required supplementary information for the system as a whole. Benefit provisions and contribution obligations have been established by the City Council. M.E.R.S. issues a publicly available financial report that includes the applicable financial statements and required supplementary information. The report may be obtained by writing to M.E.R.S. 1134 Municipal Way, Lansing, Michigan 48917.

Note 4 - Other Information (Continued)

A. Retirement Plans and Other Post-employment Benefits (Continued)

Police Patrol Pension Plan

All full-time police patrol employees, who are a member of a class of employees covered by a collective bargaining agreement between City of Davison and a union representing its police employees, are eligible to participate in the M.E.R.S. police patrol pension plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of December 31, 2007, the most recent valuation, there were seven active plan members, four retirees and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.

Per union contract all participants must contribute ten percent (10%) of their base rate of pay to M.E.R.S. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement, death and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 50 with 25 years of service.

Police Command Pension Plan

All full-time police department command officers are eligible to participate in the M.E.R.S. police command pension plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As December 31, 2007, the most recent valuation, there were two active plan members, zero retirees and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.

Participants must contribute seven percent (7%) of their base rate of pay to M.E.R.S. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement, death, and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 50 with 25 years of service.

Police Dispatchers/Secretaries Pension Plan

All full-time police department dispatchers/secretaries are eligible to participate in the M.E.R.S. police dispatchers/secretaries pension plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of December 31, 2007, the most recent valuation, there were two active plan member, one retiree and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.

Note 4 - Other Information (Continued)

A. Retirement Plans and Other Post-employment Benefits (Continued)

Police Dispatchers/Secretaries Pension Plan (Continued)

Per union contract participants must contribute three percent (3%) of their base rate of pay to M.E.R.S. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement, death, and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 6 years of service. Participants may elect normal retirement at age 50 with 25 years of service.

Public Works Pension Plan

All full-time public works employees are eligible to participate in the M.E.R.S DPW plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of December 31, 2007, the most recent valuation, there were eight active plan members, two retirees and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.

The plan does not require nor does it permit employee contributions.

The plan provides retirement, death and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 50 or with 25 years of service.

Non-union Pension Plan

All full-time non-union employees are eligible to participate in the plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of July 1, 2008, the most recent valuation, there were ten active plan members, zero retirees and beneficiaries receiving benefits and one terminated plan member not yet receiving benefits.

The plan does not require nor does it permit employee contributions.

The plan provides retirement, death and disability benefits to plan members and their beneficiaries.

Note 4 - Other Information (Continued)

A. Retirement Plans and Other Post-employment Benefits (Continued)

Non-union Pension Plan (Continued)

The plan provides for vesting of benefits after 5 years of service. Participants may elect normal retirement at age 60 or after 5 years of service, whichever is later. The plan also provides for early retirement at age 55 with 15 years of service.

Annual required contribution (recommended)	\$ 135,293
Interest on the prior year's net Pension obligation	(9,049)
Annual pension cost	126,244
Amount contributed - Payments of current premiums	(264,718)
Decrease in net pension obligation	(138,474)
Pension obligation - Beginning of year	91,081
Prepaid pension - End of year	\$ (47,393)

Funding Method and Assumptions

The terms of the plans require that the City shall make contributions of at least as great as the amount certified by the plan's actuary as the amount necessary to keep the plan in full force. The employer contributions ranged from 15.87% to 29.08% of covered payroll for the M.E.R.S. plans.

	<u>DPW</u>	<u>Non-Union</u>	<u>Police Control</u>	<u>Police Command</u>	<u>Police Dispatch/ Secretaries</u>
Actuarial valuation date	12/31/07	7/1/08	12/31/07	12/31/07	12/31/07
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization method	Level %	Level %	Level %	Level %	Level %
Remaining amortization period (weighted)	28 years	21 years	28 years	28 years	28 years
Asset valuation method	Market	Market	Market	Market	Market
Actuarial assumptions					
Investment rate of return	8.0%	6.5%	8.0%	8.0%	8.0%
Projected salary increase	4.5-12.9	3.0	4.5-12.9	4.5-12.9	4.5-12.90

Note 4 - Other Information (Continued)

A. Retirement Plans and Other Post-employment Benefits (Continued)

Annual Pension Costs

Three year trend information regarding the annual pension costs (APC), percentage of APC contributed, and net pension obligation (NPO) are summarized by plan as follows:

Plan Year End	Actuarial Valuation Date	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation (Overpayment) NPO
<u>DPW</u>				
6/30/08	12/31/07	\$106,743	100.00%	\$ -
6/30/07	12/31/06	66,477	100.00	-
6/30/06	12/31/05	55,074	100.00	-
<u>Non-Union</u>				
6/30/08	7/1/07	126,244	210.00	(47,393)
6/30/07	7/1/06	161,046	80.00	91,801
6/30/06	7/1/05	180,421	99.00	66,363
<u>Police</u>				
6/30/08	12/31/07	110,360	100.00	-
6/30/07	12/31/06	80,510	100.00	-
6/30/06	12/31/05	57,496	100.00	-
<u>Police Command</u>				
6/30/08	12/31/07	31,125	100.00	-
6/30/07	12/31/06	23,295	100.00	-
6/30/06	12/31/05	22,229	100.00	-
<u>Police Dispatchers/Secretaries Pension Plan</u>				
6/30/08	12/31/07	23,410	100.00	-
6/30/07	12/31/06	22,646	100.00	-
6/30/06	12/31/05	13,043	100.00	-

City of Davison, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Other Information (Continued)

Funding progress

Plan Year End	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/c)
<u>Non-Union Pension Plan:</u>							
6/30/08	7/1/07	\$671,812	\$1,161,169	\$489,357	57.86%	\$341,861	143.15%
6/30/07	7/1/06	472,389	1,053,983	581,594	44.82	329,138	176.70
6/30/06	7/1/05	350,754	945,195	594,441	37.11	381,841	155.68
6/30/05	7/1/04	247,097	827,175	580,078	29.87	373,317	155.38
6/30/04	7/1/03	108,021	620,864	512,843	17.40	335,152	153.02
6/30/03	7/1/02	393,545	855,859	462,314	45.98	331,364	139.52
<u>Police Patrol Pension Plan:</u>							
6/30/08	12/31/07	\$1,869,454	\$3,071,182	\$1,201,728	60.87%	\$468,423	256.55%
6/30/07	12/31/06	1,721,055	2,700,021	978,966	63.74	421,075	232.49
6/30/06	12/31/05	1,632,723	2,535,419	902,696	64.39	362,266	249.18
<u>Police Command Pension Plan:</u>							
6/30/08	12/31/07	\$449,144	\$764,725	\$315,581	58.73%	\$147,313	214.22%
6/30/07	12/31/06	385,405	545,766	160,361	70.61	143,451	111.78
6/30/06	12/31/05	329,843	506,149	176,306	65.16	144,636	121.89
<u>Police Dispatchers/Secretaries Pension Plan:</u>							
6/30/08	12/31/07	\$197,695	\$346,727	\$149,032	57.17%	\$64,425	231.33%
6/30/07	12/31/06	146,290	329,114	182,824	44.44	59,201	308.81
6/30/06	12/31/05	132,038	317,355	185,317	41.60	37,748	490.93
<u>Public Works Pension Plan:</u>							
6/30/08	12/31/07	\$1,503,032	\$2,821,321	\$1,318,289	53.27%	\$411,808	320.12%
6/30/07	12/31/06	1,374,211	2,570,856	1,196,645	53.45	369,159	324.15
6/30/06	12/31/05	1,234,144	2,142,492	908,348	57.60	394,541	230.23

Post Retirement Benefits

The City provides post retirement benefits (health, dental, and optical) to all City retirees. (Effective July 1, 1992, a surviving spouse may continue in the retiree segment if he or she is eligible to assume pension benefits.) During the current year, 12 retirees received benefits. The total cost for these benefits for 2008 was \$187,397. The City pays for 100% of these costs as incurred and provides no funding for them as they are earned. There is no provision for employee contributions.

Note 4 - Other Information (Continued)

B. Deferred Compensation Plan

The City offers its employees a Deferred Compensation Plan created in accordance with IRC Section 457. The plan, available to substantially all City employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseen emergency.

The law allows trusts to be created for the plan assets, thereby, insulating the assets from the City's general creditors. The City's plan administrator created the trust and placed the assets of the plan within the trust. As a result, the plans assets are not shown on the financial statements to reflect that the City has no fiduciary or administrative responsibility for this plan.

C. Building Department Revenues and Expenditures

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. The rules indicated that if the revenues exceeded the expenditures, the fees collected must be kept in a separate fund with all the revenues and expenditures accounted for in that fund. These rules allowed for monitoring these funds in a separate activity center within the General Fund if the expenditures would normally exceed the revenues. The City chose the latter because historically, the expenditures have exceeded revenues. The activity related to construction code activity for the year ended June 30, 2008 is as follows:

Shortfall at July 1, 2007	\$(448,460)
Current year – building permits revenue	7,184
Less: Expenditures	<u>(43,583)</u>
Excess expenditures over revenue	<u>(36,399)</u>
Cumulative shortfall at June 30, 2008	<u><u>\$(484,589)</u></u>

D. Risk Management

Risk Management - primary government:

The City is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for coverage of all claims. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 4 - Other Information (Continued)

E. Joint Ventures

- I. In April 1979, the City of Davison entered into a joint venture with the Davison Township to create a Senior Citizens Authority. Richfield Township entered into the joint venture on July 1, 1996 and notified the Authority during fiscal 2007 of its intent to withdraw from the Authority. The purpose of the Authority is to provide facilities for recreation and activities for senior citizens residing in the City and Townships. The Authority is governed by a seven member board appointed by the governing bodies of the City, Township, and Richfield Township. The seven member board is made up of two members from each municipality and the seventh member will be appointed alternately by the member municipalities. The agreement provides that the three municipalities will provide 1/3 of the net expenses. The board of the Authority is required to submit an annual operating budget to the governing body of each municipality for approval.

During the year ended June 30, 2008 the City's contribution to the Senior Citizens Authority was \$52,873.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at Authority headquarters.

The following is a summary of selected financial information of the Senior Citizens Authority:

	Year Ended <u>June 30, 2008</u>
Total assets	\$1,380,463
Total liabilities	61,267
Net asset invested in capital assets	1,275,077
Restricted net assets	5,642
Unrestricted net assets	38,477
Total joint venture net assets	1,319,196
Total revenue	326,998
Total expenses	322,070

The City of Davison's interest in the Authority's unrestricted net assets as of June 30, 2008 was \$12,826. The majority of the Senior Citizens Authority's assets were purchased with federal funds so any income from the sale of these assets would revert to the federal agency.

2. In January 1972, the City of Davison entered into a joint venture with Davison Township and Richfield Township to create the Davison Richfield Area Fire Authority. The purpose of the Authority is to provide uniform and orderly control of fire protection, fire department practices and organizations, and financing within the territorial limits of the three municipalities. The Authority is governed by a seven member board appointed by the governing bodies of the City and Townships. The agreement calls for each municipality to pay for each fire run to a point within its jurisdictional boundary.

Note 4 - Other Information (Continued)

E. Joint Ventures (Continued)

2. (Continued)

During the year ended June 30, 2008, the City was billed \$104,496 by the Authority. At year end, the City owed \$29,151 to the Authority for fire run services.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at Authority headquarters.

The following is a summary of selected financial information of the Fire Authority:

	Year Ended June 30, 2008
Total assets	\$3,377,979
Total liabilities	42,090
Total joint venture net assets	3,335,889
Net assets restricted for capital purchases	2,637,053
Total revenue	724,512
Total expenses	451,517
Operating subsidy from City	104,496

F. Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010. Management is currently assessing the impact of this new accounting standard on the City's financial statement for future reporting periods.

Required Supplementary Information

Budgetary Comparison Schedule General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,597,705	\$ 1,521,136	\$ 1,522,673	\$ 1,537
Licenses and permits	17,000	13,475	14,419	944
Intergovernmental revenue:				
State and local	638,197	609,876	651,943	42,067
Charges for services	111,100	117,200	109,677	(7,523)
Fines and forfeits	34,500	34,266	30,526	(3,740)
Interest income	70,000	109,934	152,945	43,011
Miscellaneous revenues	179,154	189,650	197,740	8,090
Total revenue	2,647,656	2,595,537	2,679,923	84,386
Expenditures				
Current:				
Legislative	26,800	21,600	21,130	470
General government:				
Executive expenses	158,732	176,694	165,027	11,667
Clerk	66,395	73,462	71,361	2,101
Treasurer	112,049	123,984	118,352	5,632
Election	7,700	7,000	7,468	(468)
Planning commission	35,250	34,950	34,323	627
Board of appeals	1,600	1,000	387	613
Administration expenses	412,634	527,940	507,744	20,196
Hall and grounds	89,370	81,729	79,684	2,045
Less reimbursement from:				
Local streets	(22,000)	(22,000)	(19,588)	(2,412)
Major streets	(22,000)	(22,000)	(19,588)	(2,412)
Water	(209,413)	(209,413)	(201,243)	(8,170)
Sewer	(209,413)	(209,413)	(201,243)	(8,170)
Equipment	(16,820)	(16,820)	(15,601)	(1,219)
Public safety:				
Police protection	1,347,072	1,391,484	1,370,454	21,030
Fire protection	152,600	147,916	128,817	19,099
Building and code enforcement	46,700	44,310	43,583	727
Public works:				
Public works	248,974	256,174	262,434	(6,260)
Street lighting	61,000	61,000	61,659	(659)
Public improvements	83,600	60,505	31,397	29,108
Sanitation	54,080	39,180	10,823	28,357
Off street parking	8,150	6,650	4,546	2,104
Recreation and culture:				
Senior citizens	10,000	10,000	4,818	5,182
Parks and recreation	156,640	151,640	143,386	8,254
Library	47,072	46,060	36,964	9,096
Community development	63,708	74,621	65,678	8,943
Debt service:				
Principal payments	7,857	7,857	-	7,857
Total expenditures	2,718,337	2,866,110	2,712,772	153,338
Excess of Revenue Over (Under)				
Expenditures	(70,681)	(270,573)	(32,849)	237,724
Other Financing Uses				
Transfers out	(10,000)	(10,000)	(10,000)	-
Net Change in Fund Balance	(80,681)	(280,573)	(42,849)	237,724
Fund Balance - Beginning of year	1,486,262	1,486,262	1,486,262	-
Fund Balance - End of year	\$ 1,405,581	\$ 1,205,689	\$ 1,443,413	\$ 237,724

Budgetary Comparison Schedule Major Street Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Intergovernmental revenue:				
State	\$ 250,278	\$ 250,278	\$ 255,092	\$ 4,814
Interest income	13,000	13,000	17,039	4,039
Total revenue	263,278	263,278	272,131	8,853
Expenditures				
Current:				
Highways and streets	323,194	323,194	296,409	26,785
Total expenditures	323,194	323,194	296,409	26,785
Excess of Revenue Over (Under) Expenditures	(59,916)	(59,916)	(24,278)	35,638
Other Financing Sources (Uses)				
Transfers in	5,000	5,000	5,000	-
Transfers out	(58,680)	(58,680)	(58,680)	-
Total other financing sources (uses)	(53,680)	(53,680)	(53,680)	-
Net Change in Fund Balance	(113,596)	(113,596)	(77,958)	35,638
Fund balance - Beginning of year	558,873	558,873	558,873	-
Fund balance - End of year	\$ 445,277	\$ 445,277	\$ 480,915	\$ 35,638

City of Davison

Budgetary Comparison Schedule Local Street Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance Amended Budget
Revenue				
Intergovernmental revenue:				
State	\$ 86,517	\$ 86,517	\$ 83,258	\$ (3,259)
Special assessments	-	-	941	941
Interest income	1,500	1,500	6,760	5,260
Total revenue	88,017	88,017	90,959	2,942
Expenditures				
Current:				
Highways and streets	168,224	168,224	196,107	(27,883)
Total expenditures	168,224	168,224	196,107	(27,883)
Excess of Revenue Over (Under) Expenditures	(80,207)	(80,207)	(105,148)	(24,941)
Other Financing Sources				
Transfers in	80,207	80,207	63,680	(16,527)
Total other financing sources	80,207	80,207	63,680	(16,527)
Net Change in Fund Balance	-	-	(41,468)	(41,468)
Fund Balance - Beginning of year	219,705	219,705	219,705	-
Fund Balance - End of year	\$ 219,705	\$ 219,705	\$ 178,237	\$ (41,468)

City of Davison, Michigan

Required Supplementary Information Analysis of Funding Progress

The schedule of employer contributions is as follows:

	Plan Year End	Actuarial Valuation Date	Annual Pension Cost (APC)	% of APC Contributed
<u>Non-Union</u>				
	6/30/08	7/1/07	\$126,244	210.00%
	6/30/07	7/1/06	161,046	80.00
	6/30/06	7/1/05	180,421	99.00
	6/30/05	7/1/04	180,171	58.00
	6/30/04	7/1/03	161,282	93.00
	6/30/03	7/1/02	146,201	269.19

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of July 1, 2008, the latest actuarial valuation as follows:

Non-Union

Actuarial valuation date	7/1/08
Actuarial cost method	Entry age
Amortization method	Level \$
Remaining amortization period (weighted)	21 years
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increase	3.0

Plan Year End	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/c)
<u>Non-Union Pension Plan:</u>							
6/30/08	7/1/07	\$671,812	\$1,161,169	\$489,357	57.86%	\$341,861	143.15%
6/30/07	7/1/06	472,389	1,053,983	\$581,594	44.82	329,138	176.70
6/30/06	7/1/05	350,754	945,195	594,441	37.11	381,841	155.68
6/30/05	7/1/04	247,097	827,175	580,078	29.87	373,317	155.38
6/30/04	7/1/03	108,021	620,864	512,843	17.40	335,152	153.02
6/30/03	7/1/02	393,545	855,859	462,314	45.98	331,364	139.52

City of Davison, Michigan

Required Supplementary Information Analysis of Funding Progress (Continued)

Plan Year End	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/c
<u>Police Patrol Pension Plan:</u>							
6/30/08	12/31/07	\$1,869,454	\$3,071,182	\$1,201,728	60.87%	\$468,423	256.55%
6/30/07	12/31/06	1,721,055	2,700,021	978,966	63.74	421,075	232.49
6/30/06	12/31/05	1,632,723	2,535,419	902,696	64.39	362,266	249.18
<u>Police Command Pension Plan:</u>							
6/30/08	12/31/07	\$449,144	\$764,725	\$315,581	58.73%	\$147,313	214.22%
6/30/07	12/31/06	385,405	545,766	160,361	70.61	143,451	111.78
6/30/06	12/31/05	329,843	506,149	176,306	65.16	144,636	121.89
<u>Police Dispatchers/Secretaries Pension Plan:</u>							
6/30/08	12/31/07	\$197,695	\$346,727	\$149,032	57.17%	\$64,425	231.33%
6/30/07	12/31/06	146,290	329,114	182,824	44.44	59,201	308.81
6/30/06	12/31/05	132,038	317,355	185,317	41.60	37,748	490.93
<u>Public Works Pension Plan:</u>							
6/30/08	12/31/07	\$1,503,032	\$2,821,321	\$1,318,289	53.27%	\$411,808	320.12%
6/30/07	12/31/06	1,374,211	2,570,856	1,196,645	53.45	369,159	324.15
6/30/06	12/31/05	1,234,144	2,142,492	908,348	57.60	394,541	230.23

Combining Fund Statements and Fund Descriptions

City of Davison, Michigan

Nonmajor Governmental Funds Summary Descriptions June 30, 2008

Special Revenue Funds

The Community Development Fund – was established to account for the receipt and disbursements of grants received from Community Development Block Grants.

The Capital Improvement Fund – used to accumulate resources for the payment of sanitation expenditures.

Debt Service Funds

The 1998 General Obligation Bond Fund – was established to accumulate resources for the payment of storm improvement bonds.

The Inflow and Infiltration Debt Fund – was established to accumulate resources for the payment of the 2007 General Obligation Capital Improvement Bonds.

The 1996 Street Improvement Bond Fund – was established to accumulate resources for the payment of street improvement bonds.

The Building Authority Bond Fund – was established to accumulate resources for the payment of building authority bonds.

Capital Projects Funds

The 1987 Storm Drain Improvement Fund – was established to account for storm drain improvements.

The 1996 Street Improvement Fund – was established to account for street improvements.

Agency Funds

The Tax Collection Fund – is used to account for cash receipts and disbursements for property taxes levied.

City of Davison

	Special Revenue		Debt Service	
	Community Development	Capital Improvements	1998 General Obligation Bonds	Inflow and Infiltration
Assets				
Cash and cash equivalents	\$ -	\$ 4,007	\$ 38,285	\$ 161,547
Due from other funds	-	-	-	-
	\$ -	\$ 4,007	\$ 38,285	\$ 161,547
Liabilities and Fund Balances				
Liabilities				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Due to other governments	-	-	2,132	-
Total liabilities	-	-	2,132	-
Fund Balances				
Unreserved, undesignated	-	4,007	36,153	161,547
Total fund balances	-	4,007	36,153	161,547
Total liabilities and fund balances	\$ -	\$ 4,007	\$ 38,285	\$ 161,547

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

Debt Service		Capital Projects		Total Nonmajor Governmental Funds
1996 Street Improvement	Building Authority Bonds	1987 Storm Drain Improvements	1996 Street Improvements	
\$ 110	\$ 186	\$ -	\$ 4,931	\$ 209,066
-	-	18,211	-	18,211
\$ 110	\$ 186	\$ 18,211	\$ 4,931	\$ 227,277
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	2,132
-	-	-	-	2,132
110	186	18,211	4,931	225,145
110	186	18,211	4,931	225,145
\$ 110	\$ 186	\$ 18,211	\$ 4,931	\$ 227,277

City of Davison

	Special Revenue		Debt Service
	Community Development	Capital Improvements	1998 General Obligation Bonds
Revenue			
Property taxes	\$ -	\$ -	\$ -
Intergovernmental revenue:			
Federal	53,696	-	-
Charges for services	-	195,624	-
Interest income	389	-	1,411
Total revenue	54,085	195,624	1,411
Expenditures			
Current:			
Sanitation	-	204,366	-
Public works	54,085	-	-
Debt service:			
Principal payments	-	-	-
Interest and fiscal charges	-	-	3,839
Total expenditures	54,085	204,366	3,839
Excess (deficiency) of revenue over expenditures	-	(8,742)	(2,428)
Other Financing Uses			
Transfer in	-	-	-
Transfer out	-	-	(17,851)
Total other financing sources (uses)	-	-	(17,851)
Net change in fund balances	-	(8,742)	(20,279)
Fund Balances - Beginning of year	-	12,749	56,432
Fund Balances - End of year	\$ -	\$ 4,007	\$ 36,153

**Combining Statement of Revenue, Expenditures, and Changes in
Fund Net Assets - Nonmajor Governmental Funds
Year Ended June 30, 2008**

Inflow and Infiltration	Debt Service		Capital Projects		Total
	1996 Street Improvement	Building Authority Bonds	1987 Storm Drain Improvements	1996 Street Improvements	
\$ 159,681	\$ -	\$ -	\$ -	\$ -	\$ 159,681
-	-	-	-	-	53,696
-	-	-	-	-	195,624
4,484	77	7	502	233	7,103
164,165	77	7	502	233	416,104
-	-	-	-	-	204,366
-	-	-	26,922	6,340	87,347
-	-	-	-	-	-
2,618	5,003	-	-	-	11,460
2,618	5,003	-	26,922	6,340	303,173
161,547	(4,926)	7	(26,420)	(6,107)	112,931
-	-	-	17,851	-	17,851
-	-	-	-	-	(17,851)
-	-	-	17,851	-	-
161,547	(4,926)	7	(8,569)	(6,107)	112,931
-	5,036	179	26,780	11,038	112,214
\$ 161,547	\$ 110	\$ 186	\$ 18,211	\$ 4,931	\$ 225,145

City of Davison

Budgetary Comparison Schedule Capital Improvement Fund Year Ended June 30, 2008

	Capital Improvement			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Charges for services	\$ 192,460	\$ 195,624	\$ 195,624	\$ -
Interest income	-	-	-	-
Total revenue	192,460	195,624	195,624	-
Expenditures				
Sanitation	192,460	204,720	204,366	354
Total expenditures	192,460	204,720	204,366	354
Net Change in Fund Balances	-	(9,096)	(8,742)	354
Fund Balances - Beginning of year	12,749	12,749	12,749	-
Fund Balances - End of year	\$ 12,749	\$ 3,653	\$ 4,007	\$ 354

City of Davison

Budgetary Comparison Schedule Davison Local Development Finance Authority Year Ended June 30, 2008

	Budget		Actual	Variance with
	Original	Amended		Amended Budget
Revenue				
Tax increment revenue	\$ 45,000	\$ 45,000	\$ 55,365	\$ 10,365
Interest	500	500	4,492	3,992
Total revenue	45,500	45,500	59,857	14,357
Expenditures				
Current:				
Development administration:				
Community development director	25,000	25,000	24,162	838
Development activities:				
Professional services	6,500	6,500	8,708	(2,208)
Entrance and Signs	50,000	50,000	-	50,000
Street lighting/streetscape	10,000	10,000	-	10,000
Properties expenses	25,000	25,000	19,783	5,217
Miscellaneous expense	-	-	516	(516)
Total development activities	91,500	91,500	29,007	62,493
Total expenditures	116,500	116,500	53,169	63,331
Net change in fund balance	(71,000)	(71,000)	6,688	77,688
Fund Balance - Beginning of year	119,911	119,911	119,911	-
Fund Balance - End of year	\$ 48,911	\$ 48,911	\$ 126,599	\$ 77,688

City of Davison

Budgetary Comparison Schedule Davison Downtown Development Authority Year Ended June 30, 2008

	Budget		Actual	Variance with Amended Budget
	Original	Amended		
Revenue				
Tax increment revenue	\$ 60,000	\$ 120,000	\$ 125,469	\$ 5,469
Interest	750	3,500	2,982	(518)
Local donations	-	20,000	20,000	-
Pumpkin Festival revenue	16,450	22,582	22,731	149
Miscellaneous revenue	-	2,250	2,399	149
Total revenue	77,200	168,332	173,581	5,249
Expenditures				
Current:				
Development administration				
Administrative staff	10,225	10,225	10,221	4
Dues and memberships	500	500	447	53
Insurance	5,200	5,200	4,948	252
Audit fees	2,500	2,500	2,500	-
Administrative expense and travel	800	800	379	421
Maintenance	25,000	27,500	19,543	7,957
Lease payments	900	900	900	-
Decoration placement labor	1,500	-	-	-
Utilities	4,000	4,500	4,997	(497)
Total development administration	50,625	52,125	43,935	8,190
Community administration and promotion				
Promotion and marketing	1,000	1,000	581	419
Farmer's Market expense - net	7,050	6,715	5,837	878
Pumpkin Festival expense	19,950	20,005	19,192	813
Events director	-	780	780	-
Total community administration and promotion	28,000	28,500	26,390	2,110
Public improvement:				
Beautification	-	41,000	-	41,000
Engineering	10,000	10,500	10,425	75
Paving	1,000	25,000	19,773	5,227
Streetscaping	70,000	25,720	26,735	(1,015)
Christmas	2,500	1,200	856	344
Facade program	-	31,593	27,104	4,489
Total public improvement	83,500	135,013	84,893	50,120
Total expenditure:	162,125	215,638	155,218	60,420
Net change in fund balance	(84,925)	(47,306)	18,363	65,669
Fund Balance - Beginning of year	49,236	49,236	49,236	-
Fund Balance - End of year	\$ (35,689)	\$ 1,930	\$ 67,599	\$ 65,669

City of Davison

Report to the City Council
June 30, 2008



Plante & Moran, PLLC

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To the City Council
City of Davison

We have recently completed our audit of the basic financial statements of City of Davison for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, summary of unrecorded possible adjustments, recommendations, and informational comments which impact the City of Davison:

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Report on Internal Control	1-3
Results of the Audit	4-6
Summary of Unrecorded Possible Adjustments	7
Other Recommendations	8
Informational - Legislative matters, etc.	9

We are grateful for the opportunity to be of service to the City of Davison. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

November 12, 2008

Report on Internal Control

November 12, 2008

To the City Council
City of Davison

Dear Council Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the City of Davison's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards are to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this **Report on Internal Control** will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of Davison as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Davison's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Davison's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a

To the City Council
City of Davison

misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Fund Balances

Fund balances as of the beginning of the year for several funds were not in agreement with prior year audited financial statement. We recommend that procedures be implemented to verify that the fund balances of the subsequent year are in agreement with the audited financial statements.

Interfund Receivables and Payables

During the audit it was noted that the balances of the interfund receivables and payables were not in agreement (i.e. the receivable in a fund was in agreement with the payable in the offsetting fund). We recommend procedures be implemented to verify that the interfund receivables and payables are in agreement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

Bank Accounts and Certificates of Deposit Reconciliations

Monthly bank reconciliations for the period April through June 2008 had not been completed by the first week of September 2008 when we started our fieldwork.

Also as part of our review of internal controls over cash we noted that not all monthly bank reconciliations prepared by employees are reviewed by supervisory staff. On a monthly basis a few of the reconciliations are randomly selected and reviewed. We recommend that bank reconciliations are prepared monthly on a timely basis and that all bank reconciliations are reviewed by supervisory staff.

The balance in certificates of deposits recorded on the trial balance was not in agreement with the actual certificate of deposits issued by the banks. We recommend the certificate of deposit balance noted on the trial balance is reconciled to the paper copies of the certificates (at a minimum at year end).

Long Term Debt

The outstanding principal balance on long-term debt in the water fund was not in agreement with the applicable amortization schedule. This was a result of the payments not being split properly between interest and principal. We recommend that as payments are made during the

To the City Council
City of Davison

year on water fund debt the payment is split between principal and interest according to the amortization schedule. Additionally we recommend that the outstanding principal balance per the amortization schedule is agreed to the trial balance.

Reconciliation of the Tax Collection Fund

The tax collection fund should be reconciled at the end of each tax collection period and the accounts in the tax collection fund should be adjusted to reflect what funds are still owed to each unit of government or each City fund. This fund should be balanced as close to zero at the end of each tax collection period as possible. Interest earnings made by the tax collection fund should be disbursed to the general fund at the end of each tax collection period. Currently interest earnings have not been disbursed to the general fund at the end of the tax collection period and the fund has not been reconciled to zero. Since this has not been done, the balance in the tax collection cash account has increased over the last few years. We suggest the tax collection account be reconciled and the cash held by the tax collection fund be paid out.

Accrual Adjustments

During the audit, we provided assistance in identifying and posting accrual adjustments to the accounting records. Accruals represent any adjustments other than cash that impact the accounting records (accrued interest and payroll, receivables and payables etc.). We are pleased to assist in this process – our auditors have expertise in accrual adjustments. However, we bring this to your attention since it meets the above definition of a matter to be communicated.

This communication is intended solely for the information and use of management, the council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script, reading "Peggy Haw Jury".

Peggy Haw Jury, CPA, CFE

Results of the Audit

November 12, 2008

To the City of Council
City of Davison

We have audited the financial statements of City of Davison for the year ended June 30, 2008, and have issued our report thereon dated November 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 9, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of City of Davison. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 2, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Davison are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

To the City Council
City of Davison

We noted no transactions entered into by the organization during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the useful lives of capital assets and the net pension asset.

Management's estimate of the useful lives and net pension asset is based on the estimate of their life and the pension actuarial valuations. We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management to correct outstanding debt balances and to reclass capital project activity related to inflow and infiltration project in the proper fund.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

To the City Council
City of Davison

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 12, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the organization’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

This information is intended solely for the use of City Council and management of City of Davison and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script that reads "Peggy Haw Jury".

Peggy Haw Jury, CPA. CFE

To the City Council
City of Davison

Client: **City Davison**
Opinion Unit **Sewer Fund (Major Enterprise Fund)**
Y/E: **6/30/2008**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

		Increases (Decreases)				
Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
Known Misstatements:						
AI	Adjust sewer receivables on trial balance to agree to subsidiary ledger	(3,540)			(3,540)	

Other Recommendations

Computer Controls

During the audit it was discovered that computer access controls do not currently require passwords to be changed periodically by users. The computer software has the ability to automatically prompt users to create new passwords on a set schedule. We recommend that this feature of the software be activated.

Inventory

Inventory balances in the water fund have not changed in several years. We recommend that the inventory on hand for the water fund is evaluated to determine if there has been any change in the actual amount held.

Sewer and Water Receivables

On a monthly basis the sewer and water receivable subsidiary ledger is compared to the trial balance. There was a small variance which remained consistent throughout the year. We recommend that the general ledger balance be adjusted to agree to the subsidiary ledger. Any new variance that occurs subsequently should be investigated and corrected in the month it occurs.

Informational

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day “exemption from prior approval” process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City’s year end (June 30, 2008) and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

Retiree Health Care Benefits - Reminder

As mentioned last year, the Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions* which will require the City to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The City currently pays for premiums on a pay-as-you-go basis.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government wide statement of net assets. This valuation will need to be performed by an actuary only if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. Plans with fewer than 100 participants may either hire an actuary, or perform the calculation themselves (at least every three years).

This statement is effective for the fiscal year beginning July 1, 2009. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates. The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the “interperiod equity” issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year’s contribution. Therefore, funding the contribution will actually reduce your long run cost.